

**BEFORE THE COMMISSIONER OF COMMERCE AND INSURANCE FOR THE
STATE OF TENNESSEE**

TENNESSEE SECURITIES DIVISION,)
Petitioner,)
)
v.)
)
B & B WORM FARM, INC.,)
WORM SOURCE OF TENNESSEE,)
LYNN BRADLEY,)
GENE PIERPAOLI, and)
REGINA PIERPAOLI,)
Respondents.)

No. 03- 014

AGREED ORDER

The Tennessee Securities Division ("Division"), Petitioner, and Worm Source of Tennessee, Gene Pierpaoli and Regina Pierpaoli (hereinafter collectively referred to as the "Respondents") agree to the entry of this Agreed Order in accordance with the Tenn. Code Ann. § 48-2-116 of the Tennessee Securities Act of 1980, as amended, Tenn. Code Ann. §§ 48-2-101, *et seq.*, which states that the Commissioner of Commerce and Insurance ("Commissioner") from time to time may make such orders as are necessary to carry out the provisions of the Act.

GENERAL STIPULATIONS

1. It is expressly understood by all parties that this Agreed Order is subject to the Commissioner's acceptance and has no force and effect until such acceptance is evidenced by the entry of the Commissioner.

2. This Agreed Order is executed by the Respondents for the purpose of avoiding further administrative action with respect to this cause. Furthermore, should this Agreed Order not be accepted by the Commissioner, it is agreed that presentation to and consideration of this Agreed Order by the Commissioner shall not unfairly or illegally prejudice the Commissioner from further participation or resolution of these proceedings.

3. Respondents fully understand that this Agreed Order will in no way preclude additional proceedings by the Commissioner against the Respondents for acts or omissions not specifically addressed in this Agreed Order for facts and/or omissions that do not arise from the facts or transactions herein addressed, nor does it preclude additional proceedings by the Commissioner against the Respondents based upon these facts or transactions herein addressed by some other Division of the Commissioner.

4. Respondents expressly waive all further procedural steps, and expressly waive all rights to seek judicial review of or to otherwise challenge or contest the validity of the Agreed Order, the stipulations and imposition of discipline contained herein, and the consideration and entry of said Agreed Order by the Commissioner.

5. The Tennessee Securities Act of 1980, as amended, Tenn. Code Ann. §§ 48-2-101, *et seq.* ("Act"), places the responsibility for the administration of the Act on the Commissioner. The Division is the lawful agent through which the Commissioner discharges this responsibility. Tenn. Code Ann. § 48-2-115.

FINDINGS OF FACT

6. B&B Worm Farm ("B&B") is a business entity with its principal place of business located at Tr. 1 Box 163 B, Meeker, Oklahoma 74855. B&B has never been registered with the Division as a broker-dealer, investment adviser, or agent of a broker-dealer or investment adviser.

7. Worm Source of Tennessee ("WST") is a business entity with its principal place of business located at 118 Moonlight Drive, Gallatin, Tennessee 37066. WST has never been registered with the Division as a broker-dealer, investment adviser, or agent of a broker-dealer or investment adviser.

8. Greg Bradley ("G. Bradley") was a citizen and resident of the State of Oklahoma whose address was located at Tr. 1 Box 163 B, Meeker, Oklahoma 74855. G. Bradley has never been registered with the Division as a broker-dealer, investment adviser, or agent of a broker-dealer or investment adviser. G. Bradley was a co-owner of B&B. G. Bradley died on or about January 26, 2003.

9. Lynn Bradley ("L. Bradley") is an individual whose address is located at Tr. 1 Box 163 B, Meeker, Oklahoma 74855. L. Bradley has never been registered with the Division as a broker-dealer, investment adviser, or agent of a broker-dealer or investment adviser. L. Bradley is the owner of B&B, having inherited her deceased husband's one-half (1/2) interest in B&B.

10. Doug Smith ("Smith") is an individual whose address is unknown to the Division at this time. Smith has never been registered with the Division as a broker-dealer, investment adviser, or agent of a broker-dealer or investment adviser.

11. Gene Pierpaoli ("G. Pierpaoli ") is a citizen and resident of the State of Tennessee whose address is located at 118 Moonlight Drive, Gallatin, Tennessee 37066. G. Pierpaoli has never been registered with the Division as a broker-dealer, investment adviser, or agent of a broker-dealer or investment adviser. G. Pierpaoli is a co-owner of WST.

12. Regina Pierpaoli ("R. Pierpaoli") is a citizen and resident of the State of Tennessee whose address is located at 118 Moonlight Drive, Gallatin, Tennessee 37066. R. Pierpaoli has never been registered with the Division as a broker-dealer, investment adviser, or agent of a broker-dealer or investment adviser. R. Pierpaoli is a co-owner is WST.

13. In or about 1998, G. Bradley and L. Bradley began operating B&B in Meeker, Oklahoma.

14. At all times material to the events described herein, G. Bradley and L. Bradley represented to investors that B&B was created in order to produce worms for use in organic waste management projects and to produce worm byproducts or "castings" for organic soil enhancement.

15. B&B sold contracts to investors *via* various promotional materials, including newspaper and magazine ads, as well as through its website. The contracts were sold to investors in Tennessee for amounts totaling between two thousand dollars (\$2,000.00) and one hundred thousand dollars (\$100,000.00). WST was the principal distributor in Tennessee for B&B.

16. The terms of the contracts that B&B entered into with Tennessee investors provided that B&B would, in return for the investment, agree to buy back an unlimited amount of live worms grown by the investors. B&B represented to investors that it was able to honor the provision in the contracts agreeing to purchase the worms grown by the investors due to several large-scale contracts it had with, among others, an Iowa corporation and the State of Louisiana.

17. However, contrary to its representations to Tennessee investors, the Iowa corporation had been inactive since April of 2000 and the State of Louisiana had never approved a contract to do business with or subsidize the business activities of B&B.

18. During the time period beginning in or about the year 2000 to the present, B&B engaged in sales of investment contracts to approximately ninety-five (95) individuals and/or business entities located in Tennessee through WST. The total amount of such sales totaled approximately one million three hundred sixty-one thousand five hundred dollars (\$1,361,500.00).

19. B&B, G. Bradley and L. Bradley failed to disclose that B&B did not have sufficient assets to honor the investment contracts that they sold to Tennessee investors.

20. G. Bradley and L. Bradley converted investor funds to their own personal use, including the use of investor funds to pay the personal expenses of G. and L. Bradley, as well as to invest the funds in an adult entertainment business located in Nevada.

21. WST, through G. Pierpaoli and R. Pierpaoli, did offer and sell “grower” contracts with B&B to a number of Tennessee residents in return for compensation paid to it by B&B during a period of time that lasted approximately from 2001-2003.

22. The contracts with B&B sold by WST and the Pierpaolis to the “growers” in Tennessee promised a substantial return on the growers investment with B&B that was to be realized through the efforts of WST and B&B in distributing and selling the worms and worm “castings” to various end-users, as described in ¶ 15-16 above.

CONCLUSIONS OF LAW

23. Pursuant to Tennessee Code Annotated § 48-2-115(a), the responsibility for the administration of the Act is upon the Commissioner. The Division is the lawful agent through which the Commissioner discharges this responsibility.

24. Pursuant to Tennessee Code Annotated § 48-2-116, the Commissioner may make, promulgate, amend, and rescind such orders as are necessary to carry out the provisions of this Act and that such order is in the public interest, necessary for the protection of investors and consistent with the purposes fairly intended by the policy and provision of the Act

25. Tenn. Code Ann. § 48-2-102(16) provides that:

“Security” means any note, stock, treasury stock, bond, debenture, evidence of indebtedness, a life settlement contract, as defined in § 56-50-102, or any fractional or pooled interest in a life insurance policy or life settlement contract, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, *investment contract*, voting-trust certificate, certificate of deposit for a security, certificate of interest or participation in an oil, gas, or mining title or lease or in payments out of production under such a title or lease; or, in general, any interest or instrument commonly known as a “security,” or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing. . . .(emphasis added)

26. In *King v. Pope*, 91 S.W.3d 314, 321 (Tenn. 2002), the Tennessee Supreme Court held that an investment contract must satisfy the following four elements:

(1) An offeree furnishes initial value to an offeror, and (2) a portion of this initial value is subjected to the risks of the enterprise, and (3) the furnishing of the initial value is induced by the offeror's promises or representations which give rise to a reasonable understanding that a valuable benefit of some kind, over and above the initial value, will accrue to the offeree as a result of the operation of the enterprise, and (4) the offeree does not receive the right to exercise practical and actual control over the managerial decisions of the enterprise.

27. Tenn. Code Ann. § 48-2-104 provides that:

(a) It is unlawful for any person to sell any security in this state unless:

- (1) It is registered under this part;
- (2) The security or transaction is exempted under § 48-2-103; or
- (3) The security is a covered security.

(b) The commissioner may, after notice and opportunity for a hearing under the Uniform Administrative Procedures Act, compiled in title 4, chapter 5, impose a civil penalty against any person found to be in violation of this section, or any regulation, rule or order adopted or issued under this section, in an amount not to exceed ten thousand dollars (\$10,000) per violation.

28. The facts stated above demonstrate that: (1) the contracts sold by B&B and/or WST meet the definition of investment contracts as defined in *King*, 91 S.W.3d at 321, and are therefore securities under the Act, pursuant to Tenn. Code Ann. § 48-2-102(16); (2) that B&B and/or WST has sold securities in Tennessee without first having registered such securities with the Division, as required by the Act; (3) that such securities are not subject to any exemptions under the Act; and (4) that such securities are not “covered” securities, as defined under the Act.

29. Tennessee Code Ann. § 48-2-109(a) provides that it is unlawful for any person to transact business from or in this state as a broker-dealer or agent unless such person is registered as a broker-dealer or agent under this part.

30. Tenn. Code Ann. § 48-2-109(e) provides that the Commissioner may, after notice and an opportunity for a hearing under the Uniform Procedures Act, compiled in title 4, chapter 5, impose a civil penalty against any person found to be in violation of this section, or any regulation, rule or order adopted or issued under this section, in an amount not to exceed ten thousand dollars (\$10,000.00) per violation.

31. Based on the Findings of Fact and Conclusions of Law contained herein, the Commissioner concludes that the Respondents have violated the Act, specifically at Tenn. Code Ann. §§ 48-2-104 and 109.

32. Respondents admit the general stipulations, findings of fact and conclusions of law contained herein and hereby also acknowledge the Commissioner's authority to administer said statute and concede that the Commissioner's interpretation of the statute is reasonable and enforceable. Therefore, Respondents, in order to avoid any further expenses or costs associated with litigating this matter, hereby desire to enter into this Agreed Order.

ORDER

NOW, THEREFORE, on the basis of the foregoing, and the waiver by Respondents of their rights to a hearing and appeal under the Act and Tennessee's Uniform Administrative Procedures Act, Tennessee Code Ann. §§ 4-5-101 *et seq.*, and the admission by the Respondents of the jurisdiction of the Commissioner, the Commissioner finds that the Respondents have agreed to the entry of this Order and that this Order is appropriate, in the public interest and necessary for the protection of investors.

IT IS ORDERED, pursuant to Tennessee Code Ann. § 48-2-116 of the Act that:

1. The Respondents shall not offer or sell securities in this State until such time as the Respondents have appropriately registered such securities under the Act, as provided at Tenn. Code Ann. § 48-2-104.

2. The Respondents shall not transact business in this State as a broker-dealer, investment adviser or agent thereof without first having appropriately registered as a broker-dealer, investment adviser or agent thereof under the Act, as provided at Tenn. Code Ann. § 48-2-109.

3. The Respondents shall fully and completely cooperate with the investigation and litigation of this and any related matter conducted by the Division and/or the Office of the Tennessee Attorney General ("OAG"), including but not limited to providing truthful and accurate testimony in any civil, administrative or criminal matter brought by or referred by the Division to the OAG or to the appropriate district attorney general.

4. The Respondents agree that should they violate any provision or term of this Agreed Order, they consent to the immediate imposition of the Summary Cease and Desist Order entered by the Commissioner in this matter, including the full amount of the civil penalties assessed against them therein, and that such imposition of the civil penalties shall be cumulative and in addition to any further administrative or civil penalties and other civil, administrative or criminal action taken by or referred by the Division.

IT IS FURTHER ORDERED that this Agreed Order represents the complete and final resolution of and discharge of all administrative and civil, claims, demands, actions and causes of action by the Division against the Respondents for violations of the Act which relate specifically to all actions and/or omissions by Respondents which are so described in this Agreed Order. This Agreed Order shall not be construed to apply to any other facts or circumstances other than to the actions and/or omissions of the Respondents as set forth herein.

This Agreed Order is in the public interest and in the best interests of the parties, and represents a compromise and settlement of the controversy between the parties and is for settlement purposes only. By the signatures affixed below, the Respondents affirmatively state that they have freely agreed to the entry of this Agreed Order, that they have been advised that they may consult legal counsel in this matter, and have had the opportunity to consult with legal counsel should they have desired to do so, that they waive their right to a hearing on the matters underlying this Agreed Order and to a review of the Findings of Fact and Conclusions of Law contained herein, and that no threats or promises of any kind have been made by the Commissioner, the Division, or any agent or representative thereof. The parties, by signing this Agreed Order, affirmatively state their agreement to be bound by the terms of this Agreed Order and aver that no promises or offers relating to the circumstances described herein, other than the terms of settlement set forth in this Agreed Order, are binding upon them.

SO ORDERED.

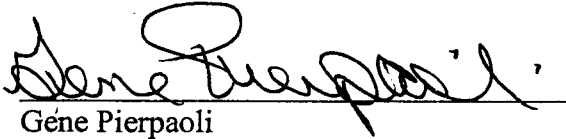
Entered this the 3rd day of June, 2003.

Paula A. Flowers
Paula A. Flowers, Commissioner
Department of Commerce and Insurance

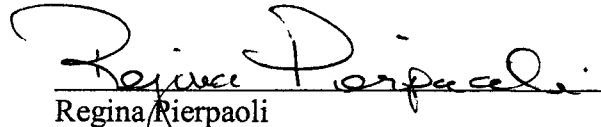
APPROVED FOR ENTRY:

Worm Source of Tennessee
By: Bene Burpoad
Title: OWNER
Worm Source of Tennessee
118 Moonlight Drive
Gallatin, Tennessee 37066

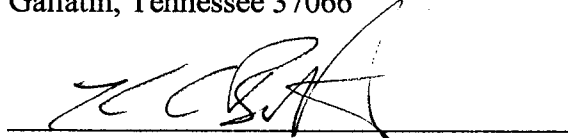
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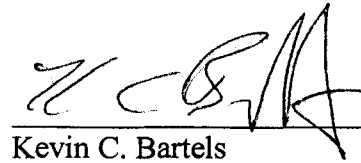
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615 741 2199

CERTIFICATE OF SERVICE

The undersigned hereby certifies that true and correct copies of the foregoing have been served upon the persons listed below by delivering same or posting same in the United States Mail, Certified Mail, Return Receipt Requested:

Worm Source of Tennessee *and*
Mr. Gene Pierpaoli and Mrs. Regina Pierpaoli
118 Moonlight Drive
Gallatin, Tennessee 37066

This the 3rd day of June, 2003.

A handwritten signature in black ink, appearing to read 'KCB', is written over a horizontal line.

Kevin C. Bartels
Certifying Attorney